Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Kelley	Analyst:	Roger Lackey	Bill Number:	SB 1904
Related Bills:	None	Telephone:	845-3627	Introduced Date:	02-24-2000
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zone Credits/Authorizes Use of Credits Against Tax from Activities Within All Enterprise Zones in the State

SUMMARY

This bill would allow taxpayers to use more of their enterprise zone sales and use tax credit or zone qualified hiring credit by allowing these credits to be claimed against income attributable to any enterprise zone in which the taxpayer is engaged in a trade or business.

EFFECTIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and apply for taxable or income years beginning on or after January 1, 2000.

SPECIFIC FINDINGS

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an enterprise zone. Using specified criteria, the Trade and Commerce Agency (TCA) designates enterprise zones from the applications received from the governing bodies. The criteria used by the TCA includes choosing the most effective, innovative, and comprehensive regulatory, tax, program, and other incentives offered by the applicant in attracting private sector investment in the proposed zone.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within an enterprise zone. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction.

Sales or Use Tax Credit

The sales or use tax credit is allowed for an amount equal to the sales or use taxes paid on the purchase of qualified machinery purchased for use by a taxpayer in its business located in an enterprise zone. The amount of the credit a taxpayer may claim each year is limited to the tax attributable to a taxpayer's income earned in the enterprise zone where the credit was generated. Any credit amount that exceeds this tax must be carried over and used in succeeding years.

Hiring Credit

A business located in an enterprise zone may reduce tax by a percentage of wages paid to qualified employees. At least 90% of the qualified employee's work must be directly related to a trade or business located in the enterprise zone and at least 50% must be performed inside the enterprise zone.

Board Position:			Department Director	Date
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The business may claim up to 50% of the wages paid to a qualified employee as a credit against tax imposed on income earned in the enterprise zone where the credit was generated. The amount of the credit must be reduced by any other federal or state jobs tax credits, and the taxpayer's deduction for ordinary and necessary trade or business expenses must be reduced by the amount of the hiring credit. Any excess credit may be carried over for use in succeeding years.

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), For purposes of calculating the amount of the sales and use tax credit and the qualified hiring credit that could be offset against the net tax or the tax for the taxable or income year, **this bill** would define the term "enterprise zone" to mean all enterprise zones in this state.

As a result, **this bill** would increase the rate at which these credits can be used by permitting a taxpayer that operates in more than one zone to apply the credits against the tax on income attributable to any enterprise zone in the state.

Policy Considerations

This bill would not allow the same benefit to the enterprise zone NOL deduction, which has the same limitation in regard to zone income, or to similar benefits offered to taxpayers in other economic development areas (LAMBRA, MEA, and the TTA).

Implementation Considerations

This bill may create confusion among taxpayers by redefining "enterprise zone" for only two of the zone benefits. In addition, implementation of this bill would complicate administration of enterprise zone incentives. However, implementing this bill should not significantly impact the department's programs and operations.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the departments costs.

Tax Revenue Estimate

Based on data and assumptions discussed below, revenue losses from this bill would be estimated to be in the order of **$1 million** per year beginning with fiscal year 2000-1.

Tax Revenue Discussion

According to departmental data for tax year 1997, fewer than 20 business entities were involved in two or more enterprise zones and reported positive taxable income (two-thirds are in two zones only). Of the $7 million in unused credits for these few taxpayers, it is projected that no more than $1 million would be applied against available tax liabilities attributed to other zones each year.

BOARD POSITION

Pending.